

**Board of Governors of the Federal Reserve System**

**AUDIT OF BOARD OVERSIGHT OF  
RESERVE BANK PROCUREMENT**



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**OFFICE OF INSPECTOR GENERAL**

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BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

OFFICE OF INSPECTOR GENERAL

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The Honorable Edward W. Kelley, Jr.  
Chairman  
Committee on Federal Reserve Bank Affairs

We are pleased to present our final *Report on the Audit of Board Oversight of Reserve Bank Procurement* (A9603). Our work focused on the Board's oversight of all aspects of the acquisition process (planning, solicitation/evaluation/award, and contract administration). Specifically, we looked at the adequacy of policies and procedural guidance, the effectiveness of compliance monitoring by the Board's financial examiners, and the usefulness of Board-required reports by Reserve Banks on their procurement activities.

We found that policies and guidance need to be expanded and updated and that the Board needs to clarify its expectations regarding Reserve Bank compliance. This is particularly true for those Reserve Bank procurements not subject to Board approval (approximately half of the Reserve Banks' \$500 million annual procurement expenditures). We also found that the financial examination program is not designed nor staffed to perform comprehensive evaluations of the Reserve Banks' procurement processes. Finally, we found that required reports on Reserve Bank procurement activities were generally useful and properly prepared.

We make two recommendations designed to improve procurement policy and procedural guidance. Our third recommendation encourages the Board to ensure that the Reserve Banks' general auditors periodically perform comprehensive evaluations of their respective Bank's procurement process. The Director of Reserve Bank Operations and Payments Systems' response to a draft copy of this report (appendix 1) indicates agreement with the intent of our three recommendations and outlines his proposed actions. He plans to seek guidance from your committee on Board consideration of the System's Uniform Acquisition Guidelines, including policy goals, preferred procedures, and expectations for compliance. If we can be of assistance to you during this process, please let me know.

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# **EXECUTIVE SUMMARY**

## **Background**

The Federal Reserve conducts monetary policy, supervises and regulates banking institutions, maintains a stable financial system, and provides financial services to the U.S. government, the public, financial institutions, and foreign official institutions. Carrying out these major missions requires the twelve Federal Reserve Banks to acquire significant amounts of goods and services. In 1994 and 1995, the Reserve Banks spent about \$456 million and about \$545 million on purchases, nearly 21 percent and 24 percent of their total annual expenses, respectively. The Board of Governors of the Federal Reserve System (the Board) has general supervisory responsibility over the Reserve Banks and shares the Reserve Banks' risks of uneconomic, inefficient, or ineffective procurement practices that might not be perceived as fair, open, and competitive.

To mitigate risks related to Reserve Bank activities, the Board issues policies and operational guidelines; monitors Reserve Bank functions through budget reviews and approvals, operations reviews, and financial examinations; and requires periodic reporting from the Reserve Banks on selected operations. These supervisory processes have been designed to afford the Reserve Banks autonomy in operations while giving the Board the final authority on all questions of policy and assurance of effective, efficient operations in the Reserve Banks.

## **Purpose**

We performed this audit to evaluate the efficiency and effectiveness of the Board's oversight of Reserve Bank procurement. Specifically, we evaluated the adequacy of written guidance provided by the Board for Reserve Bank procurement, the effectiveness of the Board's financial examination program for monitoring compliance with policy and procedural requirements, and the usefulness of required reporting for monitoring and supervising Reserve Bank procurement activities.

## **Results**

We found that the Board's procurement policy and guidelines are reasonably comprehensive for the building acquisitions specifically approved by the Board and that the Board ensures compliance through its review and approval processes. Procurement policies and guidelines for large automation equipment acquisitions are also reasonably

comprehensive through the contract award phase, and the Reserve Banks generally comply with established reporting requirements.

However, we also identified areas that need improvement. Specifically, the current policy framework is not clear, complete, or up to date, and is sending mixed messages to the Reserve Banks concerning the Board's expectations, goals, preferred procedures, and degree of compliance required, particularly for Reserve Bank procurements not subject to Board approval (approximately half of all Reserve Bank procurement expenditures). In addition, the Board lacks a mechanism to keep its policies and guidelines current, to issue policy interpretations, and to share best practices among the Reserve Banks. We also found that the financial examination program does not provide a comprehensive assessment of Reserve Bank procurement activities because it does not verify that the Bank's policies comply with System policy guidelines and it is not designed to comprehensively evaluate the efficiency and effectiveness of Reserve Bank procurement operations. Furthermore, the limited testing of the procurement process during a financial examination, coupled with the lack of clear criteria, does not, in our opinion, provide adequate assurance that Reserve Banks conduct procurements as the Board would expect.

The Board plans to strengthen oversight of Reserve Bank procurement and to encourage the Reserve Banks to establish a more formal forum for exchanging best practices in procurement and contracting among Reserve Bank officials. We endorse these goals. Our recommendations are designed to assist the Board in achieving them, which we believe it can do by clarifying its procurement policies and ensuring that its procurement policies are comprehensive and up to date (see recommendation 1, page 9, and recommendation 2, page 11) and by establishing a different approach to periodic, comprehensive evaluations of the Reserve Banks' procurement processes (see recommendation 3, page 13). Implementing our three recommendations will strengthen oversight of Reserve Bank procurement and help ensure that the risks from Reserve Bank procurement activities are adequately controlled.

## **Analysis of Comments**

We provided a draft copy of this report to the Director of the Division of Reserve Bank Operations and Payment Systems for his review and comment. In his response (included as appendix 1), the director stated that the division is in agreement with the intent of our three recommendations and described actions he intends to take to clarify the Board's expectations regarding Reserve Bank procurement policies, ensure that the policies are updated and interpretations are provided, and encourage each general auditor to perform periodic evaluations of the procurement process. We believe the actions outlined by the director are responsive to our recommendations.